

Message Text

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TAGS: ENRG VE

SUBJ: GOV REACTION TO FEA ADMINISTRATOR ZARB

STATEMENT THAT VENEZUELA SELLING OIL AT DISCOUNT

1. BEGIN SUMMARY. THE CARACAS PRESS PUBLISHED UPI INTERVIEW WITH FEA ADMINISTRATOR ZARB, AND ALSO EXCERPTS OF HIS STATEMENTS REPORTEDLY APPEARING IN CONGRESSIONAL RECORD, EMPHASIZING THAT REDUCED US DEMAND FOR VENEZUELAN OIL IS PERMANENT AND THAT GOV IS DISCOUNTING UP TO ONE DOLLAR PER BARREL FOR ITS CRUDE SALES. GOV REACTED PREDICTABLY WITH AN OFFICIAL REBUTTAL STATEMENT FROM THE MINES MINISTRY, AND SEPARATE COMMENTS BY BOTH MINES MINISTER HERNANDEZ AND PETROVEN PRESIDENT ALFONZO. ZARB'S REMARKS WERE CLASSIFIED AS PART OF A STRATEGY TO WEAKEN OPEC. GOV OFFICIALS CAN BE EXPECTED TO DEEPLY RESENT BEING SINGLED OUT AS AN OIL DISCOUNTER, IN PART BECAUSE IT WILL CAUSE THEM EMBARRASSMENT AMONG THEIR OPEC COLLEAGUES, BUT ALSO BECAUSE IT WILL BE CONSIDERED FURTHER EVIDENCE OF USG PARTIALITY TO MIDDLE EAST PRODUCERS, SOME OF WHOM ARE OPENLY RUMORED TO BE

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DISCOUNTING. END SUMMARY.

2. THE CARACAS PRESS ON APR 29 PROMINENTLY FEATURED A UPI STORY OF AN INTERVIEW WITH FEA ADMINISTRATOR ZARB REGARDING HIS TESTIMONY ON VENEZUELAN OIL PRICING AND NEW FEA FUEL OIL IMPORT MEASURES WHICH APPEARED IN THE CONGRESSIONAL RECORD. ZARB WAS REPORTED AS BELIEVING THAT VENEZUELAN OIL IS OVERPRICED, AND THAT THE USG "HAS INFO THAT VENEZUELA HAS GIVEN DISCOUNTS OF UP TO ONE DOLLAR PER BARREL ON CRUDE OIL." ZARB REPORTEDLY ADDED THAT "THE FEA BELIEVES THAT THE VENEZUELAN GOVT WILL CONTINUE TO FIND THE US MARKET ATTRACTIVE IN COMING MONTHS FOR ITS EXPORTS, AT DISCOUNT PRICES, FOR BOTH CRUDE AND RESIDUAL FUEL OIL." THE DISCOUNTS FOR OVERPRICED VENEZUELAN OIL WERE GIVEN BECAUSE VENEZUELAN EXPORTERS ARE FINDING IT DIFFICULT TO SELL WHAT THEY WOULD LIKE TO, ACCORDING TO ZARB, AND THE DROP IN US DEMAND FOR THE HEAVY, HIGH SULFUR CRUDE OF VENEZUELA IS A PERMANENT FACT.

3. ZARB WAS FURTHER QUOTED AS SAYING THAT "WE KNOW THE VENEZUELANANS ARE VERY HAPPY WITH THESE DECISIONS (MAKING VENEZUELAN RESIDUAL FUEL IMPORTS INTO US MORE COMPETITIVE"), AND THAT THE DECISIONS "CONSTITUTE ADDITIONAL INCENTIVES FOR VENEZUELA TO OFFER RESIDUAL COMBUSTIBLE TO NORTH AMERICAN FIRMS AT PRICES THAT ARE LOWER THAN THOSE IN THE OIL CARTEL."

4. THE MINES MINISTRY ISSUED A STATEMENT IN RESPONSE TO THE UPI STORY AND IT WAS GIVEN FRONT PAGE TREATMENT BY THE CARACAS PRESS ON APR 30, ALONG WITH REACTION STATEMENTS BY MINES MINISTER HERNANDEZ AND PETROVEN PRESIDENT ALFONZO. THE COMMUNIQUE REJECTED AND DENIED CATEGORICALLY ZARB'S STATEMENTS AND INDICATED THEY HAD PRODUCED A "DISAGREEABLE SURPRISE." ADDING THAT "IT DOES NOT ESCAPE OUR NOTICE THAT MR ZARB'S AFFIRMATIONS ARE PART OF A STRATEGY TO WEAKEN THE SOLIDITY OF OPEC", THE MINISTRY STATED THAT IT HAS NEVER DISCUSSED OIL PRICING WITH USG OFFICIALS. OIL PRICING DECISIONS ARE DIRECTED TO SAFEGUARDING AND CONSOLIDATING WHAT OPEC HAS ACHIEVED, THE STATEMENT CONTINUES, AND AS PROOF OF LIMITED OFFICIAL USE

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THIS, ALL OIL SALES CONTRACTS SIGNED BY PETROVEN WITH THE INTERNATIONAL COMPANIES HAVE INCLUDED A CLAUSE WHEREBY OPEC PRICING DECISIONS WILL IMMEDIATELY BE REFLECTED IN THE CONTRACTS. AS FINAL PROOF, THE STATEMENT CONCLUDES, THE TYPICAL TIA JUANA LIGHT CRUDE OF VENEZUELA HAS MAINTAINED A FIRM PRICE OF \$12.30 PER BARREL SINCE JAN 1, WHICH IS TOTALLY IN AGREEMENT WITH OPEC PRICE GUIDELINES.

5. MINIES MINISTER HERNANDEZ RETURNED APR 29 FROM THE GENEVA OPEC MEETING AND WAS QUESTIONED BY VARIOUS REPORTERS ABOUT THE ZARB STATEMENTS. IN AN EXCLUSIVE INTERVIEW AT HIS HOME WITH THE EL NACIONAL ECONOMIC EDITOR, HERNANDEZ REPORTEDLY SAID THAT HE DID NOT GIVE MUCH IMPORTANCE TO THE STATEMENTS. ASKED IF HE WOULD HAVE BEEN EMBARRASSED IN GENEVA BY COMPLAINTS BY OTHER OPEC COUNTRIES IF THE REPORT OF ALLEGED VENEZUELAN DISCOUNTING HAD BEEN KNOWN THERE, HERNANDEZ REPLIED, "ABSOLUTELY NOT." THERE WERE EXPRESSIONS OF SOLIDARITY, RESPECT AND UNDERSTANDING FOR THE VENEZUELAN POSITION. FURTHERMORE, THE MINISTER SAID THAT HE HAD GIVEN A FULL BRIEFING ON THE TECHNICAL SERVICE CONTRACTS WHICH VENEZUELA HAS SIGNED WITH THE OIL COMPANIES TO THE OPEC DELEGATES. IN CONVERSATIONS WITH OTHER REPORTERS, HERNANDEZ REPLIED TO QUESTIONS ABOUT ZARB'S STATEMENT WITH THE REMARK, "I CAN'T UNDERSTAND WHY HE WOULD SAY THAT. HE SEEMED LIKE A SERIOUS MAN TO ME." HE SPECULATED, "I THINK IT IS A MATTER OF POLITICS." IN ADDITION TO NOT DISCOUNTING, HERNANDEZ NOTED THAT SECOND QUARTER PRICES WERE ACTUALLY INCREASED ON SOME OIL EXPORTS.

6. PETROVEN PRESIDENT ALFONZO SEPARATELY ISSUED A STATEMENT IN WHICH HE SAID THAT "EVEN THOUGH THE PRICES SET ACCORDING TO OPEC LINES AT THE BEGINNING THE YEAR DID NOT ENCOUNTER TOTAL ACCEPTANCE IN THE MARKET PLACE, AT NO TIME WERE DISCOUNTS OFFERED. THESE INITIAL DIFFICULTIES IN PLACING OUR CURDES AND PRODUCTS WOULD BE ATTRIBUTED IN PART TO THE PRICES THAT WERE ESTABLISHED." HE ADDED THAT "THIS HAS BEEN SO MUCH THE CASE THAT SPECIALIZED PUBLICATIONS OF RECOGNIZED SERIOUSNESS HAVE INDICATED THAT ANYONE WHO IS LOOKING FOR DISCOUNTS IN LIMITED OFFICIAL USE

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PRICES OF VENEZUELAN OIL SHOULD LOOK SOME PLACE ELSE."

7. APART FROM THE GOV REACTION TO THE ZARB TESTIMONY, THE SAUDI ARABIAN CHARGE TOLD AN EMBASSY OFFICER ON APR 29 THAT HIS GOVT WILL BITTERLY OPPOSE ANY PETROLUM PRICE RISE AT THE NEXT OPEC MEETING. HE MADE THIS STATEMENT AFTER SAYING THAT IT IS HIS UNDERSTANDING THAT THE GOV HAS TAKEN A DECISION TO PUSH FOR A 15 PERCENT PRICE INCREASE. THE CHARGE SAID THAT HIS GOVT WOULD BE DELIGHTED TO RECEIVE ANY EVIDENCE PROVING THE VENEZUELAN ARE SELLING CURDE AT A DISCOUNT IN ORDER TO HELP THE SAUDIS DEFEND THE CURRENT PETROLEUM PRICE, AND ASKED THAT IF THE USG POSSESSES SUCH EVIDENCE IT BE MADE AVAILABLE TO THE SAUDIS.

8. COMMENT: THE ZARB TESTIMONY AS REPORTED BY UPI PROBABLY DISSIPATED SOME OF THE GOODWILL GENERATED BY THE FEA DECISION TO IMPROVE VENEZUELA'S COMPETITIVE SITUATION IN THE US WITH RESPECT TO RESIDUAL FUEL OIL. THE GOV WILL BE GREATLY DISTRESSED IF THEY HAVE THE ZARB COMMENTS BROUGHT UP IN THE INDONESIAN OPEC MEETING IN MAY, PARTICULARLY BY SAUDI ARABIA AS AN ARGUMENT IN FAVOR OF MAINTAINING CURRENT PRICES. THEY WILL VIEW BEING SINGLED OUT AS AN INDICATION OF USG PARTIALITY TOWARD MIDDLE EAST PRODUCERS, WHO ARE ALSO RUMORED TO BE DISCOUNTING. THE GOV WILL ALSO LOOK CAREFULLY AT OTHER PROPOSALS FOR OIL NEGOTIATIONS WITH THE USG, SINCE THEY DO NOT WANT TO BE DEPICTED AS THE WEAK LINK IN OPEC BEING SYSTEMATICALLY EXPLOITED BY THE USG.

9. EMBASSY WOULD APPRECIATE OPPORTUNITY TO REVIEW ANY FEA CLARIFICATION STATEMENT PRIOR TO ITS RELEASE.
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